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TAGS: [OTRA](#) [ECON](#) [ETRD](#) [EAID](#) [PGOV](#) [AF](#) [ET](#)
SUBJECT: SCENESETTER FOR CODEL MEEKS VISIT TO ETHIOPIA:
FEBRUARY 16-17, 2010

SUMMARY

¶1. (SBU) SUMMARY: Your visit to Ethiopia comes during a period of political and economic challenges. Ethiopia takes pride in being the oldest independent country in Africa. The modern political landscape of Ethiopia has been shaped by the 1998-2000 border conflict with Eritrea (70,000 Ethiopians and Eritreans killed) and the aftermath of the May 2005 elections, which was marked by civil disobedience, killings of protesters, and the imprisonment of opposition party members. Opposition leader Birtukan Mideksa, party chairman of the Unity for Democracy and Justice (UDJ) party, is serving a life sentence in prison. Five members of diaspora opposition party Ginbot 7 received death sentences in December 2009 upon being convicted of conspiracy to overthrow the government after a trial lacking in basic elements of due process. National parliamentary elections are scheduled to take place in May 2010, and political space for opposition parties, the media, and civil society is being progressively restricted as the campaign season kicks off.

¶2. (SBU) Economically, Ethiopia remains one of the poorest countries in the world, with an annual per capita Gross Domestic Product (GDP) of USD 340. Eighty-five percent of the population works in the agriculture sector. Chronic cycles of drought, high population growth, state and ruling party dominance in numerous commercial sectors, inefficient agricultural markets, and regular power outages all act to limit Ethiopia's economic development. Foreign investment restrictions are widespread, including key sectors such as banking, insurance, and telecommunications. Ethiopia suffers a significant trade deficit, resulting in a severe foreign exchange crisis. Ethiopia is also the second largest recipient of U.S. foreign assistance in sub-Saharan Africa. The preponderance of this assistance is humanitarian, including food aid, and the President's Emergency Plan for AIDS Relief (PEPFAR). END SUMMARY.

POLITICAL HISTORY

¶3. (SBU) Ethiopia has a rich history and a diverse population. The Oromo, Amhara, and Tigrean ethnic groups

together constitute more than three-fourths of the population, but Ethiopia is home to over 77 ethnic groups, each with a distinct language and culture. Ethiopia is the oldest independent country in Africa, ruled largely by Christian nobility until the socialist military regime known as the Derg seized power in 1974. Lt. Col. Mengistu Haile Mariam assumed power as head of state and Derg chairman. Mengistu's years in office were marked by a totalitarian-style government and massive militarization. From 1977 through early 1978 thousands of suspected enemies of the Derg were tortured and killed in the "red terror" purge.

EPRDF TAKES POWER

¶4. (SBU) Ethnically-based opposition groups joined together in 1989 to form the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF). In July 1991, the EPRDF, the Oromo Liberation Front (OLF), and others established the Transitional Government of Ethiopia (TGE). The election for a 547-member constituent assembly was held in June 1994. The assembly adopted the Constitution of the Federal Democratic Republic of Ethiopia in December 1994. The elections for Ethiopia's first popularly chosen national parliament and regional legislatures were held in May and June 1995, resulting in a landslide victory for the EPDRF. Since assuming power, the EPRDF-led government of Prime Minister Meles Zenawi has promoted a policy of ethnic federalism, devolving significant powers to regional, ethnically based authorities.

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ETHIOPIA-ERITREA RELATIONS

¶5. (SBU) On April 23-25, 1993 Eritreans voted for independence in an UN-monitored free and fair referendum. Eritrea, with Ethiopia's consent, was declared independent on April 27. Five years later, Eritrean forces attacked part of the Ethiopia-Eritrea border region, seizing some Ethiopian-controlled territory. The strike spurred a two-year war between the neighboring states that cost over 100,000 lives. Ethiopian and Eritrean leaders signed a ceasefire on June 18, 2000 and then a peace agreement, known as the Algiers Agreement, on December 12, 2000. The agreements called for an end to the hostilities, a 25-kilometer-wide Temporary Security Zone along the Ethiopia-Eritrea border, the establishment of a United Nations peacekeeping force (UNMEE) to monitor compliance, and the establishment of the Eritrea Ethiopia Boundary Commission (EEBC). The EEBC announced its Ethiopia-Eritrea border delimitation decision in 2002, but the physical demarcation of the border has not been accomplished. In mid-2008, due to lack of Eritrean cooperation, UNMEE units were withdrawn from the region and the mission was terminated.

2005 ETHIOPIAN ELECTIONS

¶6. (SBU) The May 2005 elections and their aftermath continue to weigh heavily on Ethiopia's domestic political scene. 2005 saw the opposition ostensibly take 170 seats in the 547 seat national parliament, a dramatic increase over the 15 seats they held for the previous decade. The opposition claimed it had actually won a majority that the government had fraudulently undermined in the vote counting. While the two previous elections were deemed free and fair, allegations of electoral irregularities in 2005 prompted the opposition to launch an organized civil disobedience campaign that turned violent when confronted by security forces. These security forces killed nearly 200 protesters, detained more

than 30,000 suspected demonstrators, and arrested most leaders of the opposition.

JUDICIAL ACTION AGAINST THE OPPOSITION

¶7. (SBU) The Government of Ethiopia (GoE) later pardoned the key opposition leaders, releasing them from prison 18 months later. However, opposition leader Birtukan Mideksa, party chairman of the Unity for Democracy and Justice (UDJ) party, was re-arrested in December 2008 when she noted publicly that she had never requested a pardon. Her original life imprisonment sentence was reinstated. In April 2009, the Ethiopian Government arrested 40 individuals, for involvement in an alleged assassination plot against government leaders.

The imprisoned consisted largely of Amhara military or ex-military members allegedly affiliated with Ginbot 7, a diaspora opposition party. This party was founded in May 2008 in the United States by Berhanu Nega, one of the opposition leaders in the 2005 elections. The Federal High Court found 13 of the defendants guilty in absentia and one not guilty in absentia in August 2009. Three months later, the court found another 27 guilty and sought the death penalty for all 40 defendants. On December 22, the court sentenced five Ginbot 7 defendants to death, 33 defendants to life terms, and two defendants to 10 years in prison.

CURRENT POLITICAL ENVIRONMENT

¶8. (SBU) Since 2005, the government has enacted laws which limit and restrict party politics, the media, and civil society, including a law limiting the ability of civil

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society organizations (NGOs) to receive funding from foreign sources and participate in the political process. Ruling and opposition parties have engaged in little dialogue since the opposition leaders were freed in 2007. Three opposition parties did engage in negotiations of an electoral Code of Conduct with the ruling EPRDF from August to December 2009. Government harassment made it very difficult for opposition candidates to compete in local elections in April 2008. The ruling party won more than 99 percent of the local seats throughout Ethiopia.

¶9. (SBU) National parliamentary elections are scheduled to take place in May 2010. The U.S. Embassy has strongly advocated a transparent and open election. As of December 2009, however, leading opposition politicians voiced skepticism that the Ethiopian Government would permit free and fair elections. In September, the Forum for Democratic Dialogue, (Forum), a coalition of major opposition parties, walked out of the interparty Code of Conduct talks after complaining the EPRDF refused to hold bilateral Forum-EPRDF talks. Opposition party leaders reported an intensification of harassment, arbitrary arrest, and intimidation of their supporters, especially in rural areas, nine months before the scheduled elections.

U.S. ASSISTANCE TO ETHIOPIA

¶10. (SBU) Ethiopia is now the second largest recipient of U.S. foreign assistance in sub-Saharan Africa at nearly USD 1 billion annually. The preponderance of this assistance is humanitarian, including food aid, the President's Emergency Plan for AIDS Relief (PEPFAR), the Child Survival and Health Program Funds (CSH), of which a significant share supplements the Government of Ethiopia budget. Relatively little assistance, about five percent of the total, directly contributes to Ethiopia's internal economic stability and sustainable growth. Assistance designed to promote economic

stability concentrates on agricultural development -- particularly in vulnerable, conflict-prone areas, in order to achieve food security -- and on healthcare services. Notably, the operating environment and transaction costs for non-budgetary foreign aid are increasing, as a result of new GoE restrictions on non-governmental organization (NGO) implementing partners.

ECONOMIC OVERVIEW

¶11. (SBU) Ethiopia remains one of the poorest countries in the world. Ethiopia's 2009 Gross Domestic Product (GDP) was approximately USD 32.3 billion, with an annual per capita GDP of USD 340. Chronic cycles of drought, high population growth, state and ruling party dominance in numerous commercial sectors, inefficient agricultural markets, and regular power outages all act to limit Ethiopia's economic development. The agricultural sector comprises 43 percent of GDP and employs 85 percent of Ethiopia's 80 million people. Although Ethiopia's economy is relatively small, it is growing at a fast pace. The GoE publicly touts that Ethiopia has experienced double digit real GDP growth of over 11 percent in recent years. The GoE stated real GDP growth was 10 percent in 2009. Many institutions, including the World Bank and IMF, dispute the GoE's growth statistics, stating that Ethiopia's real GDP growth rate more likely ranged between six and seven percent last year. Inflation rates skyrocketed in recent years, peaking at 64 percent year-on-year in July 2008. Inflation has since fallen to 7 percent as of December 2009, primarily due to the GoE's 2008 imposed lending cap on all banks. This restriction on lending has reduced inflation, but also restricted the private sector's access to finance.

¶12. (SBU) The GoE has identified five priority sectors for development and export growth, including: 1) coffee; 2)

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textile and garments; 3) leather, hides, and skins; 4) floriculture and horticulture; and 5) oil seeds and pulses. Total exported goods have increased 20 percent per annum on average in the five years prior to 2009. Total exports in 2009, however, remained flat over 2008's level of USD 1.5 billion mainly due to a drop off in coffee exports. Coffee exports--Ethiopia's major historical export earner--fell nearly 30 percent in terms of value in 2009 from 2008 (USD 525 million to USD 376 million). In 2009, the GoE blamed coffee exporters (who were allegedly hoarding supply) for the decline in exports and as a result, revoked licenses of six major exporters, detained some company owners overnight, and closed the warehouses of over eighty firms. The reduction in coffee exports appears to be tied to the decline in world prices as well as domestic problems associated with new coffee marketing and control legislation and capacity constraints of the newly established Ethiopia Commodity Exchange (ECX).

¶13. (SBU) Despite Ethiopia's export growth, the country suffers a severe trade deficit year after year. Imports totaled USD 7.7 billion in 2009, creating a trade imbalance of USD 6.3 billion. Ethiopia mainly imports machinery, fuel, and consumer goods. This trade deficit led Ethiopia into a severe foreign exchange crisis and to depend on international organizations and remittances to relieve some of the pressure. Foreign exchange reserves plummeted to only four weeks of import coverage in December 2008 at USD 700 million and have only slightly recovered to about USD 1.8 billion a year later. The GoE has been forced to ration hard currency, giving priority to exporters. Many companies are suffering as they are unable to import spare machinery parts and manufacturing inputs. Additionally, many foreign companies are unable to repatriate their profits without significant or indefinite delay. Aimed at easing the balance of payments and foreign exchange crises, Ethiopia's central bank

depreciated the Birr three times since January 2009--10 percent in January 2009, 10 percent in July 2009, and 5 percent in January 2010. The Birr is now trading at 13.3 per USD. In the parallel market, the Birr is trading at approximately 13.8 per USD. Many legitimate businesses are forced to operate in the parallel market due to the current foreign exchange crunch.

GOE'S ROLE IN THE ECONOMY

14. (SBU) Since the early 1990's, Ethiopia has pursued a development strategy based on a mixed economy of both state and private enterprises. While the private sector role is expanding, the state remains heavily involved in most economic sectors. Parastatal and ruling-party affiliated companies continue to dominate trade and industry, hampering full and free competition. All land in the country remains state owned, although long-term leasing arrangements and rural land registration for farmers have improved in recent years. Foreign investment restrictions are widespread, including key sectors such as banking, insurance, and telecommunications. The state-owned Ethiopian Telecommunications Corporation (ETC) is the only service provider in the sector, creating an environment of poor telecom service and access. In a country of nearly 80 million people, there are only 895,000 fixed phone lines, 3.3 million cell phones, and 44,000 internet connections. The GoE maintains a hard line stance on these key sectors, but some eventual liberalization is assumed to take place as part of the ongoing World Trade Organization (WTO) accession negotiation.

YATES